

“Registered”

By the Ministry of Justice of the RA

On October 25, 2016

State Registration Number 05016344

THE BOARD OF THE CENTRAL BANK

OF THE REPUBLIC OF ARMENIA

ORDINANCE No 158-N

27.09.2016

On approving Regulation 20/02

**“On Thresholds of prudential standards for financial groups, Calculation methodology,
Elements included in calculation and Schedule of calculation”**

Intending to define the regulatory scope of the key prudential standards for financial groups;

Pursuant to the Article 39(20) of the Law of the Republic of Armenia “On the Central Bank of the Republic of Armenia”;

In conformity with the provisions of Article 20(ji) of the Law of the Republic of Armenia “On the Central Bank of the Republic of Armenia” and Article 16 of the Law of the Republic of Armenia “On Legal Acts”, the Board of the Central Bank of the Republic of Armenia

decides:

1. To approve Regulation 20/02 “On Thresholds of prudential standards for financial groups, Calculation methodology, Elements included in calculation and Schedule of calculation” in conformity with the Annex of this Ordinance (attached).
2. This Ordinance shall come into force on January 1, 2017.

Chairman of the Central Bank
of the Republic of Armenia

A. Javadyan

October 5, 2016

Yerevan

Annex

Approved by
The Board of the Central Bank
Of the Republic of Armenia
September 27, 2016, Ordinance No 158-N

REGULATION 20/02

THRESHOLDS OF PRUDENTIAL STANDARDS FOR FINANCIAL GROUPS, CALCULATION METHODOLOGY, ELEMENTS INCLUDED IN CALCULATION AND SCHEDULE OF CALCULATION

SECTION I. GENERAL PROVISIONS AND BASIC CONCEPTS

CHAPTER 1. GENERAL PROVISIONS

1. This Regulation is designed in accordance with provisions of the Law of the Republic of Armenia on “Central Bank of The Republic of Armenia” and regulates the thresholds of the key prudential standards for financial groups recognized by the Central Bank of the Republic of Armenia, methodology of calculation of those standards, composition of elements included in the calculation and schedule of calculation.
2. Requirements specified in this Regulation shall apply to Armenian financial groups and Armenian financial groups the part of International financial groups classified by the Central Bank as not low risky financial group.

CHAPTER 2. BASIC CONCEPTS

3. Basic concepts used in this Regulation shall have the following meaning:

- 1) **Financial Group** - as per Article 39.15(1) of the Law of the Republic of Armenia on “Central Bank of The Republic of Armenia”;
- 2) **Regulation 20/01** - Regulation 20/01 “Rules on Recognition of financial groups and Termination of financial group qualification, Introduction of changes in the financial group composition, Appointment procedures of responsible entities, Types of financial groups” approved by Ordinance No 157-N of the Board of the Central Bank of the Republic of Armenia on September 27, 2016;
- 3) **Regulation 2** - Regulation 2 “Regulation of Bank activities, Key Prudential Standards for Banking activities” approved by Ordinance No 39 N of the Board of the Central Bank of the Republic of Armenia on February 9, 2007;
- 4) **Regulation 3/02** - Regulation 3/02 “Thresholds, procedure of formation and calculation of main prudential standards for insurance activities, criteria for qualifying reinsurers as not prohibited” approved by Ordinance No 311-N of the Board of the Central Bank of the Republic of Armenia on October 2, 2007;
- 5) **Regulation 4/02** - Regulation 4/02 “Key Prudential standards, their thresholds, calculation methodology, composition of elements included in calculation, the extent of breaches of stated prudential standards for investment companies” approved by Ordinance No 44-N of the Board of the Central Bank of the Republic of Armenia on February 12, 2008;
- 6) **Regulation 10/02** - Regulation 10/02 “Key Prudential standards for investment fund management company, thresholds thereof (including minimum size of mandatory holding of investment fund manager in each investment fund under the management of investment fund management company), minimum size of infringement of prudential standards which are grounds for revocation of license

(permission) of investment fund management company” approved by Ordinance No 119-N of the Board of the Central Bank of the Republic of Armenia on May 2, 2011;

7) **Regulation 14** - Regulation 14 “Regulation of Credit Organizations Activities, Prudential Standards for Credit Organizations Activities” approved by Ordinance No 347 N of the Board of the Central Bank of the Republic of Armenia on November 5, 2002;

8) ***“Financial group (single) borrower”***:

a. entity, which has commitments to at least two members of financial group (under the methodology of single borrower risk calculation of that particular member), and entity which is related to the given borrower and has commitments to any member of financial group (if available); or

b. entity, which has commitments to at least one member of financial group (under the methodology of single borrower risk calculation of that particular member), and entity which has commitments to a member of financial group and is related to the given borrower (if available), whereas where the financial group includes investment fund manager, commitment defined in paragraphs “a” and “b” deems commitment of financial group borrower to the investment fund of given fund manager;

9) ***“Related person of financial group”*** - related person of one of the financial group members (according to the Law on “Banks and Banking”) that has a liability towards at least two financial undertakings of the financial group;

10) ***“Problematic intragroup transactions”*** - those on-balance and off-balance sheet transactions set out in the Law of the Republic of Armenia on “The Central Bank of the Republic of Armenia”, which:

a. had or may have ***significant*** negative impact on key prudential standards of the transaction counterpart; and (or)

b. were not or are not concluded under market conditions; and (or)

c. may trample interests of customers of financial undertakings;

- 11) *“Transactions concluded counter to market conditions”* - transactions, which are concluded with a financial group member on more favorable terms than those with the same maturity and the same risk, concluded with other entities of the same legal status and acting in the same area;
- 12) **“RWA”** - risk weighted assets;
- 13) Types of financial groups and subgroups used in this Regulation are defined by Regulation 20/01.

SECTION II. KEY PRUDENTIAL STANDARDS OF FINANCIAL GROUPS AND METHODOLOGY OF THEIR CALCULATION

CHAPTER 3. KEY PRUDENTIAL STANDARDS OF FINANCIAL GROUP

4. Bank group and bank subgroup of multi-profile group shall calculate prudential standards defined in Regulation 2 (excluding minimum reserve requirements held in the Central Bank and foreign exchange control standards) for consolidated financial statements of bank group and bank subgroup of multi-profile group. Furthermore, bank group and bank subgroup N3¹, N3², N4¹, N4² prudential standards defined by Regulation 2 shall be calculated accordingly for financial group (subgroup) single borrower (borrowers) and related person (persons) of financial group (subgroup) as defined in this Regulation. Bank group shall also calculate the maximum threshold for problematic intragroup transaction(s) of financial group in cases defined in this Regulation and according to the rules of calculation laid down in this Regulation.

5. Insurance group and insurance subgroup of multi-profile group shall calculate prudential standards defined in Regulation 3/02 (excluding foreign exchange control standard) for consolidated financial statements of insurance group. Furthermore, insurance group and insurance subgroup N5 prudential standard defined by Regulation 3/02 shall be calculated for financial group (subgroup) single borrowers as defined in this regulation. Insurance group

shall also calculate the maximum threshold for problematic intragroup transaction(s) of financial group in cases defined in this Regulation and according to the rules of calculation laid down in this Regulation.

6. Credit, investment and multi-profile groups shall calculate the following prudential standards:

- 1) minimum capital adequacy requirement - in accordance with calculation methodology defined in this Regulation;
- 2) maximum risk per borrower for financial group - in accordance with calculation methodology defined in this Regulation;
- 3) maximum threshold for problematic intragroup transaction(s) of financial group - in cases defined in this Regulation and in accordance with calculation methodology defined in this Regulation.

CHAPTER 4. THRESHOLDS OF KEY PRUDENTIAL STANDARDS OF FINANCIAL GROUP

7. Minimum capital adequacy standard of credit, investment and multi-profile financial groups (Standard N1) calculated through aggregation method is set to 100 percent.

8. Maximum risk per borrower of credit, investment and multi-profile financial groups (Standard N2) is set to 20 percent.

9. Maximum threshold for problematic intragroup transaction(s) of financial group is set from 0 to 5 (close interval) percent of total regulatory capital of undertaking within financial group for which that problematic transaction(s) is recognized as asset or conditional liability. In case of insurance (reinsurance) transaction it is set 0 to 5 (close interval) percent of total regulatory capital of group member insurance (reinsurance) company.

Intragroup transactions are recognized problematic by the Board of the Central Bank. Central Bank Board may decide on the scope of problematic transactions of that particular

financial group, thresholds for those transactions and timeframe for those thresholds. Central Bank may request to clear those problematic transactions, which were implemented and/or are in effect at the moment of Central Bank Board decision-making.

CHAPTER 5. METHODOLOGY OF CALCULATION OF KEY PRUDENTIAL STANDARDS FOR FINANCIAL GROUP

10. Total regulatory capital of credit, investment and multi-profile financial groups shall be calculated through the following formula:

$$TC_g = \sum_i^n TC_i - P$$

Where:

TC_g Total regulatory capital of financial group

TC_i Monthly average of total regulatory capital of the i -th financial undertaking within financial group in the relevant quarter calculated:

- as per Regulation 2 for bank or banking subgroup;
- as per Regulation 3/02 for insurance (reinsurance) company or insurance subgroup;
- as per Regulation 14 for credit organization;
- as per Regulation 4/02 for investment company;
- as per Regulation 10/02 for investment fund

P manager

- Sum of participations of undertakings within financial group in the capital of other group member undertakings, which was not reduced pursuant to prudential regulation of the Central Bank defined for that particular undertaking.

11. Capital adequacy standard shall be calculated through the following formula:

$$N1 = \frac{TC_g}{CD_g}$$

Where:

TC_g	Total regulatory capital of financial group
CD_g	Capital requirement of financial group

Capital requirement of financial group shall be calculated through the following formula:

$$CD_g = \sum_i^n CD_i$$

Where:

CD_i	Monthly average of regulatory capital requirement of the i -th undertaking of financial group in the relevant quarter.
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Capital requirements of financial undertakings:

- 1) Capital requirement of bank or banking subgroup is equal to $\max(N12/100\% \times RWA; \text{minimum requirement of bank total capital})$. N12, minimum requirement of bank total capital and RWA are defined by Regulation 2;
- 2) Capital requirement of insurance (reinsurance) company or insurance subgroup is equal to $\max(RWA+SR; \text{minimum level of N1.1})$. RWA, SR and N1.1 are defined by Regulation 3/02;
- 3) Capital requirement of credit organization is equal to $\max(N1/100\% \times RWA; \text{minimum requirement of credit organization total capital})$. N1, RWA and minimum requirement of credit organization total capital are defined by Regulation 14;
- 4) Capital requirement of investment company is equal to $\max(N1/100\% \times RWA; \text{minimum requirement of investment company total capital})$. N1, RWA and minimum requirement of investment company total capital are defined by Regulation 4/02;

5) Capital requirement of investment fund managers is equal to minimum requirement of total capital. Minimum requirement of investment fund managers' total capital is defined by Regulation 10/02.

12. Calculation of RWA under clauses 1-5 of paragraph 11 of this Regulation does not include all intra group transactions executed between financial group member financial undertakings, including the part of participations in capital of another financial undertaking within financial group, which was deducted from total regulatory capital according to chapter 5 article 10 of this Regulation.

13. The maximum risk per borrower of credit, investment and multi profile financial groups shall be calculated through the following formula:

$$N2 = \frac{\sum_i R_i + RF_i}{TC_g}$$

where:

TC_g Total regulatory capital of financial group (calculated according to paragraph 10 of this Regulation)

R_i Risk per borrower of the i -th financial undertaking of financial group, which is calculated:

- as per Regulation 2 for bank or banking subgroup;
- as per Regulation 3/02 for insurance and reinsurance company or insurance subgroup;
- as per Regulation 14 for credit organization;
- risk for investment company is the sum of receivables towards investment company raising from transactions with securities conducted on behalf and at the cost of investment company, guaranteed placement of securities, as well as provision of lending.

RF_i - The amount of indirect investments made through investment fund in the securities of a single borrower (in deposits as well, where borrower is a bank) of i -th financial undertaking of financial group. This ratio is calculated in case of investment fund manager existence within financial group. It is equal to

$$RF_i = SF \times IS$$

SF the share of i -th financial undertaking of financial group in investment fund (in absolute value)

IS investments in securities of the given borrower (in deposits as well, where borrower is a bank) of given investment fund (in percentage from fund assets).

CHAPTER 6. SCHEDULE OF CALCULATION OF KEY PRUDENTIAL STANDARDS FOR FINANCIAL GROUP

14. Prudential standards of a financial group shall be calculated on a quarterly basis, while
 1. Maximum risk per borrower and problematic intragroup transactions of financial group also as of the moment of concluding transactions and allocating elements included in respective risk categories against the total capital of that particular day;
 2. Bank group (subgroup) N3¹, N3², N4¹, N4² prudential standards also as of the moment of allocating elements included in respective risk categories against the total capital of that particular day;

3. Insurance group (subgroup) N3 and N5 prudential standards also as of the moment of allocating elements included in respective risk categories against the total capital of that particular day.

15. Pursuant to paragraphs 4 and 5 of this Regulation, upon calculation of prudential standards, bank and (or) insurance subgroups of multi-profile group shall aggregate them with prudential standards of other members of multi-profile group in the manner laid down in this chapter.